

Puerto Rico: a study of population loss amid economic decline

Scott Berridge

With a shrinking population and struggling economy, Puerto Rico is faced with some serious challenges. Its population has decreased by 5 percent in the last decade, mainly because of the out-migration, or emigration, of young people. Loss of both jobs and young workers is creating a vicious cycle of economic decline that is hard to escape. A shrinking tax base makes caring for an aging population a strain. Meanwhile, Puerto Rico attempts to support the elderly, many of whom are relatively poor, via an already fragile pension system. In [“The causes and consequences of Puerto Rico’s declining population”](#) (Federal Reserve Bank of New York, *Current Issues in Economics and Finance*, Second District Highlights, volume 20, number 4, 2014) , authors Jaison R. Able and Richard Deitz look at the challenges facing Puerto Rico.

Economic decline and a subsequent population downturn are often tied to the loss of key industries. The repeal of section 936 of the IRS code, which exempted multinational corporations from paying U.S. corporate income tax on profits from operations on the island, had a negative impact on employment and caused workers to look elsewhere for work. While Puerto Rico’s population has been declining for decades, the economic losses in manufacturing accelerated this trend. Unemployment in Puerto Rico is highest among the least educated, and they would be apt to benefit from emigrating to the U.S. mainland where jobs are more plentiful; however, people with at least a high school diploma are more likely to have the means to relocate to the U.S. mainland.

To determine whether Puerto Rico has suffered a loss of intellectual capital, Able and Deitz measured the annual net migration of each of the following educational attainment groups: less than high school, high school graduate, some college, and college graduate. The authors calculated the net change as the number of immigrants less the number of emigrants. Although Puerto Rico has a net loss of citizens across all groups, the share of college-educated emigrants has fallen below the proportion of college-educated people in the general population. So although a brain drain has occurred and is of some concern, the emigration rate of less educated Puerto Ricans has exceeded that of the more educated population, and the net migration pattern shows that people with higher levels of educational attainment are less vulnerable to the economic forces driving Puerto Rico’s demographic losses.

The authors note that 17 American states have experienced post-World War II population losses like that of Puerto Rico in that they lasted at least 5 years. These losses are usually tied to economic declines in key industries, such as the coal or steel industries. In Puerto Rico’s case, the pharmaceutical manufacturing industry was hard hit by the removal of tax advantages.

Although the experience of several of the states discussed in the article might imply that Puerto Rico's population decline will continue, New York City provides an example of recovery. The population of New York City dropped from 7.9 million to 7.1 million during the 1970s because of weakened manufacturing industries, deteriorating quality of life, and poor fiscal management. The city was close to declaring bankruptcy. Yet New York City was able to recover from these circumstances. The city established an Emergency Financial Control Board to balance the budget and regain investors' faith. By restoring fiscal credibility, cracking down on crime, and improving living standards, the city was able to improve its economy and living conditions over time, which allowed its population to reverse its decline and rise to more than 8 million by 2000.

Like New York City, Puerto Rico needs to address its fiscal problems. It also needs to address its crime problem: Puerto Rico's murder rate was 26.7 per 100,000 residents in 2012 versus the mainland's rate of 4.7. While the problems facing Puerto Rico are daunting, they are not unprecedented. Moreover, the island does have advantages, such as an attractive Caribbean climate that brings in tourism. It also has a high level of human capital and close ties with the U.S. mainland. As the authors state, solving the big problems Puerto Rico faces "will take time, resources, and patience," but a solution is possible.